

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name		County
Fiscal Year End	Opinion Date		Date Audit Report Submitted to State	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).


YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☐ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☐ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☐ ☐ The local unit has adopted a budget for all required funds.
5. ☐ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☐ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☐ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☐ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☐ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☐ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☐ The local unit is free of repeated comments from previous years.
12. ☐ ☐ The audit opinion is UNQUALIFIED.
13. ☐ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☐ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☐ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input type="checkbox"/>			
The letter of Comments and Recommendations	<input type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name)		Telephone Number		
Street Address		City	State	Zip
Authorizing CPA Signature 	Printed Name		License Number	

Village of Beverly Hills Oakland County, Michigan

**Financial Report
with Supplemental Information
June 30, 2006**

Village of Beverly Hills, Michigan

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Village of Beverly Hills, Michigan

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Independent Auditor's Report

To the Village Council
Village of Beverly Hills, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Beverly Hills as of and for the year ended June 30, 2006, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Village of Beverly Hills' management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Beverly Hills as of June 30, 2006 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis, pension system schedules of funding progress and employer contributions, and the budgetary comparison schedules, as identified in the table of contents, are not a required part of the basic financial statements but are supplemental information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

To the Village Council
Village of Beverly Hills, Michigan

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Village of Beverly Hills' basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 20, 2006 on our consideration of the Village of Beverly Hills' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide opinions on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Plante & Moreau, PLLC

September 20, 2006

Village of Beverly Hills, Michigan

Management's Discussion and Analysis

Our discussion and analysis of the Village of Beverly Hills' (the "Village") financial performance provides an overview of the Village's financial activities for the fiscal year ended June 30, 2006. Please read it in conjunction with the Village's financial statements.

Financial Highlights

As discussed in further detail in this discussion and analysis, the following represents the most significant financial highlights for the year ended June 30, 2006:

- **General Fund - Fund Balance** - The fund balance of the General Fund at June 30, 2006 was \$1,555,026 or 24.1 percent of current General Fund expenditures. This number exceeds the Village Council recommendation of a minimum of 20 percent.
- **State-shared Revenue** - The Village realized an additional 1.0 percent loss in constitutional and statutory state revenue sharing. This loss reduces state revenue sharing back to 1993 levels. Only minor fluctuations are anticipated in the next fiscal year at this time. The statutory portion of revenue sharing will be at risk as the State attempts to balance its budget without the "single business tax" (SBT) revenue which will end on December 21, 2007, two years earlier than 2009 when the repealed tax was slated to end. The Village has approximately \$113,000 of statutory revenue sharing at risk in the General Fund budget for 2006/2007.
- **Retiree Health Care** - During the past 13 years, the Village has funded retiree health care. The Village has also required most full-time employees contribute 1 percent of their salary to fund the retiree health care program. As of June 30, 2006, the fund had a balance of \$1,188,597.
- **Water Main Replacement Project** - In 2000, the Village conducted a study on the condition and age of its water mains. It was determined that the system required \$2.8 million in capital improvements in the short term. The Village has secured a \$3,690,000 Bond from the Drinking Water Revolving Fund (DWRP). As of June 2006, construction was completed while restoration was still ongoing.
- **Acacia Park Drain** - The design phase of the next Acacia Park Drain Relief Sewer Project (Kinross - Bates) is complete. Plans have been submitted for permits. Bids will be taken in the fall and construction should begin in late fall 2006. Funding was made available through the dedicated millage.
- **Municipal Parking Lot** - The construction is in process and the paving should take place by the end of October.
- **Beverly Park Improvements** - The pavilion construction at Beverly Park is complete. The renovations include new restrooms, storage space, rerouting the pedestrian traffic around the pavilion, new pavilion roof, painting, lighting, and electrical upgrades. Funding from the dedicated park millage ended on June 30, 2006.

Village of Beverly Hills, Michigan

Management's Discussion and Analysis (Continued)

- **Concrete Repair Program** - The annual concrete repair program will begin in early fall 2006.
- **2006 Asphalt Resurfacing Program** - The Village Council has awarded the 2006 resurfacing program contract. The work is also expected to begin in early fall 2006.
- **2006 Joint and Crack Sealing** - The Village Council has awarded the 2006 joint and crack sealing contract. Work will begin in early fall 2006.
- **Garbage Collection and Rubbish Disposal** - Beginning in July 2007, the Village of Beverly Hills will have a new contractor to collect and dispose of garbage in the community. This new contract should improve the efficiency and reduce cost to residents.
- **Water Meter Replacement Program** - Village administration is currently looking into a Village-wide water meter replacement program. This program would improve the accuracy of readings and reduce the amount of time to read water meters.

Using this Annual Report

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the Village as a whole and present a longer-term view of the Village's finances. The longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and tells whether the taxpayers have funded the full cost of providing services.

The fund financial statements present a short-term view; they tell us how taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the Village's operations in more detail than the government-wide financial statements by providing information about the Village's most significant funds. The fiduciary fund statements provide financial information about activities for which the Village acts solely as a trustee or agent for the benefit of those outside of the government.

Village of Beverly Hills, Michigan

Management's Discussion and Analysis (Continued)

Governmental Activities

The following table shows, in a condensed format, the current year's net assets and changes in net assets, compared to the prior two years:

	2004	2005	2006	Change	Percent
Assets					
Capital assets	\$ 8,453,304	\$ 8,327,375	\$ 9,011,975	\$ 684,600	8.2%
Other assets	6,137,323	6,384,638	6,469,511	84,873	1.3%
Total assets	14,590,627	14,712,013	15,481,486	769,473	5.2%
Liabilities					
Long-term liabilities	422,421	392,690	297,430	(95,260)	-24.3%
Other liabilities	989,936	806,151	835,330	29,179	3.6%
Total liabilities	1,412,357	1,198,841	1,132,760	(66,081)	-5.5%
Net Assets					
Invested in capital assets -					
Net of related debt	8,158,304	8,087,375	8,826,975	739,600	9.1%
Restricted	2,049,140	2,420,437	2,438,122	17,685	0.7%
Unrestricted	2,970,826	3,005,360	3,083,629	78,269	2.6%
Total net assets	<u>\$ 13,178,270</u>	<u>\$ 13,513,172</u>	<u>\$ 14,348,726</u>	<u>\$ 835,554</u>	6.2%
Revenue					
Program revenue:					
Charges for services	\$ 451,647	\$ 452,761	\$ 435,621	\$ (17,140)	-3.8%
Operating grants and contributions	724,744	767,226	792,416	25,190	3.3%
Capital grants and contributions	1,032,766	546,098	59,402	(486,696)	-89.1%
General revenue:					
Property taxes	5,881,036	6,021,799	6,198,372	176,573	2.9%
State-shared revenue	887,204	846,697	851,476	4,779	0.6%
Unrestricted investment earnings	143,110	175,095	265,921	90,826	51.9%
Miscellaneous	123,225	91,380	99,593	8,213	9.0%
Total revenue	9,243,732	8,901,056	8,702,801	(198,255)	-2.2%
Program Expenses					
General government	955,000	1,006,570	1,159,423	152,853	15.2%
Public safety	3,358,943	3,577,684	3,675,612	97,928	2.7%
Public works	1,991,667	1,917,046	1,619,115	(297,931)	-15.5%
Community and economic development	183,780	104,907	77,588	(27,319)	-26.0%
Library	474,397	487,025	501,181	14,156	2.9%
Total program expenses	6,963,787	7,093,232	7,032,919	(60,313)	-0.9%
Excess of Revenue Over Expenses	2,279,945	1,807,824	1,669,882	(137,942)	-7.6%
Transfers	(3,166,019)	(1,472,922)	(834,328)	638,594	-43.4%
Change in Net Assets	<u>\$ (886,074)</u>	<u>\$ 334,902</u>	<u>\$ 835,554</u>	<u>\$ 500,652</u>	149.5%

Village of Beverly Hills, Michigan

Management's Discussion and Analysis (Continued)

Unrestricted net assets - the part of net assets that can be used to finance day-to-day operations - increased by \$78,269 for the governmental activities. This represents an increase of 2.6 percent. The current level of unrestricted net assets for our governmental activities stands at approximately \$3,083,629, or about 48.4 percent of budgeted expenditures for the fiscal year ended June 30, 2006.

The Village's total governmental revenues decreased by \$198,255, despite inflationary increases in property taxes. The decrease, which represents approximately 2.2 percent, can be attributed to one significant item. The amount the Village received in capital grants and contributions from the federal, county, and local governments for the Acacia Drain and special assessment projects during the year decreased by 89.1 percent or \$486,696.

The total cost of governmental activities also decreased by \$60,313, or less than 1 percent during the year. The Village administration continued to amend health insurance coverage through changes in co-pays for both current and retired employees. The Village administration continues to look at other alternatives that will further reduce the future cost of health insurance for the Village.

Business-type Activities

The Village's business-type activities consist of the Water and Sewer Fund. Water and sewer services are provided to residents through contracts or consortiums with the Detroit Water and Sewerage Department. The following table shows, in a condensed format, the current year's net assets and changes in net assets, compared to the prior two years:

	2004	2005	2006	Change	Percent
Assets					
Capital assets	\$ 16,494,169	\$ 19,841,890	\$ 21,339,898	\$ 1,498,008	7.5%
Other assets	6,178,228	5,123,820	4,111,295	(1,012,525)	-19.8%
Total assets	22,672,397	24,965,710	25,451,193	485,483	1.9%
Liabilities					
Long-term liabilities	8,575,657	8,526,900	7,943,029	(583,871)	-6.8%
Other liabilities	798,164	1,106,749	874,796	(231,953)	-21.0%
Total liabilities	9,373,821	9,633,649	8,817,825	(815,824)	-8.5%
Net Assets					
Invested in capital assets -					
Net of related debt	10,656,190	12,445,905	13,235,691	789,786	6.3%
Unrestricted	2,642,386	2,886,156	3,397,677	511,521	17.7%
Total net assets	\$ 13,298,576	\$ 15,332,061	\$ 16,633,368	\$ 1,301,307	8.5%

Village of Beverly Hills, Michigan

Management's Discussion and Analysis (Continued)

	2004	2005	2006	Change	Percent
Charges for services	\$ 2,892,494	\$ 3,176,900	\$ 3,336,657	\$ 159,757	5.0%
Operating expenses other than depreciation	1,785,165	2,547,366	2,538,322	(9,044)	-0.4%
Depreciation	346,940	346,940	346,940	-	0.0%
Operating Income	760,389	282,594	451,395	168,801	59.7%
Property taxes	405,048	411,520	208,124	(203,396)	-49.4%
Interest income	3,330	5,860	6,188	328	5.6%
Interest expense	(163,994)	(139,411)	(198,728)	(59,317)	42.5%
Income Before Transfers	1,004,773	560,563	466,979	(93,584)	-16.7%
Transfers	3,166,019	1,472,922	834,328	(638,594)	-43.4%
Change in Net Assets	<u>\$ 4,170,792</u>	<u>\$ 2,033,485</u>	<u>\$ 1,301,307</u>	<u>\$ (732,178)</u>	-36.0%

Our water usage increased 1.12 percent from the previous fiscal year. In addition, the Village's water loss decreased to 7.29 percent. The operating income for the Water and Sewer Fund was \$451,395.

The Village's Funds

The analysis of the Village's major funds begins on page 12 following the government-wide financial statements. The fund financial statements provide detail information about the most significant funds - not the Village as a whole. The Village Council creates funds to help manage money for specific purposes as well as show accountability for certain activities, such as special tax millages. The Village's major funds include the General Fund, Major Streets Fund, Local Streets Fund, Coryell/Hummel SAD, and the Capital Projects Infrastructure Fund.

The General Fund pays for most of the Village's governmental services. The public safety department represents the largest cost group, which incurred expenses of \$3,850,602 in fiscal year 2005-2006.

The Capital Projects Infrastructure Fund balance increased in the current year due to setting aside funding for the next phase of the Acacia Drain Project (Kinross - Bates). The assets related to projects were then contributed to the Enterprise Fund.

Village of Beverly Hills, Michigan

Management's Discussion and Analysis (Continued)

General Fund Budgetary Highlights

Over the course of the year, the Village amended the budget to take into account events during the year. The most significant change was a decrease of spending for retiree health care due to self-funding a portion of the prescription drug card. The Village realized a net savings of \$70,000 as a result of this change. Village departments overall stayed below budget, resulting in total expenditures of \$99,338 below the amended budget. This, coupled with increased revenue from interest income, allowed the General Fund's fund balance to decrease by only \$15,153 instead of decreasing by the \$307,159 that was appropriated in the original budget.

Capital Asset and Debt Administration

At June 30, 2006, the Village had \$30,351,873 invested in a broad range of capital assets, including buildings, furniture, equipment, roads and bridges, and water and sewer mains (see Note 5 for detail). During the current year, the Village added \$3,198,967 of additional capital assets. The most significant additions related to the Acacia Drain Project additions of \$843,328 and \$1,098,786 for the water main replacement project that were funded by a combination of property tax revenues, DWRF, and contributions from other local governments.

The Village secured a \$3,690,000 bond from the Drinking Water Revolving Fund (DWRF) to fund the water main replacement project. The bonds have been recorded as a long-term liability in the business-type activities and the corresponding deposits at the State of Michigan as restricted assets. The construction project was completed in June 2006. Restoration is ongoing.

Economic Factors and Next Year's Budgets and Rates

The Village's budget for next year will increase by 2.58 percent from the amended budget for 2005/2006. Property taxes are expected to increase by 8.31 percent. In addition, the contribution from fund balance is expected to be \$0.

Water and sewer rates for fiscal year 2006/2007 will increase by 5 percent. Water and sewer rates remained unchanged for the fiscal year ended June 30, 2006.

Contacting the Village's Management

This financial report is intended to provide our citizens, taxpayers, and customers with a general overview of the Village's finances and to show the Village's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the clerk's office.

Village of Beverly Hills, Michigan

Statement of Net Assets June 30, 2006

	Governmental Activities	Business-type Activities	Total
Assets			
Cash and investments (Note 3)	\$ 5,653,830	\$ 2,850,414	\$ 8,504,244
Receivables - Net (Note 4)	670,722	820,562	1,491,284
Inventories	-	9,795	9,795
Prepaid costs and other assets	144,243	-	144,243
Restricted assets (Note 8)	716	430,524	431,240
Nondepreciable capital assets (Note 5)	291,664	-	291,664
Depreciable capital assets - Net (Note 5)	8,720,311	21,339,898	30,060,209
Total assets	15,481,486	25,451,193	40,932,679
Liabilities			
Accounts payable	189,012	271,772	460,784
Accrued and other liabilities	218,366	11,322	229,688
Liabilities to be paid from restricted assets	716	-	716
Due to other governmental units	119,381	-	119,381
Noncurrent liabilities (Note 7):			
Due within one year	307,855	591,702	899,557
Due in more than one year	297,430	7,943,029	8,240,459
Total liabilities	1,132,760	8,817,825	9,950,585
Net Assets			
Invested in capital assets - Net of related debt	8,826,975	13,235,691	22,062,666
Restricted:			
Streets and highways	1,698,017	-	1,698,017
Capital projects	705,512	-	705,512
Debt service	24,394	-	24,394
Drug forfeiture	10,199	-	10,199
Unrestricted	3,083,629	3,397,677	6,481,306
Total net assets	<u>\$ 14,348,726</u>	<u>\$ 16,633,368</u>	<u>\$ 30,982,094</u>

Village of Beverly Hills, Michigan

		Program Revenues		
		Charges for	Operating	Capital Grants
	Expenses	Services	Grants and Contributions	and Contributions
Functions/Programs				
Primary government:				
Governmental activities:				
General government	\$ 1,159,423	\$ 73,242	\$ 11,789	\$ 20,401
Public safety	3,675,612	158,620	17,001	26,025
Public works	1,619,115	199,544	763,626	12,976
Community and economic development	77,588	4,215	-	-
Library	501,181	-	-	-
Total governmental activities	7,032,919	435,621	792,416	59,402
Business-type activities - Water and sewer	3,083,990	3,336,657	-	-
Total primary government - Governmental activities	<u>\$ 10,116,909</u>	<u>\$ 3,772,278</u>	<u>\$ 792,416</u>	<u>\$ 59,402</u>

General revenues:

Property taxes and related fees
State-shared revenues
Unrestricted investment earnings
Miscellaneous

Transfers

Total general revenues and transfers

Change in Net Assets

Net Assets - Beginning of year

Net Assets - End of year

Statement of Activities
Year Ended June 30, 2006

Net (Expense) Revenue and Changes in Net Assets		
Primary Government		
Governmental Activities	Business-type Activities	Total
\$ (1,053,991)	\$ -	\$ (1,053,991)
(3,473,966)	-	(3,473,966)
(642,969)	-	(642,969)
(73,373)	-	(73,373)
(501,181)	-	(501,181)
(5,745,480)	-	(5,745,480)
-	252,667	252,667
(5,745,480)	252,667	(5,492,813)
6,198,372	208,124	6,406,496
851,476	-	851,476
265,921	6,188	272,109
99,593	-	99,593
(834,328)	834,328	-
6,581,034	1,048,640	7,629,674
835,554	1,301,307	2,136,861
13,513,172	15,332,061	28,845,233
\$ 14,348,726	\$ 16,633,368	\$ 30,982,094

Village of Beverly Hills, Michigan

Governmental Funds Balance Sheet June 30, 2006

	General Fund	Major Streets Fund	Local Streets Fund	Coryell/ Hummel SAD	Capital Projects Infrastructure	Other Non- major Governmental Funds	Total Governmental Funds
Assets							
Cash and investments	\$ 1,644,533	\$ 1,143,619	\$ 463,588	\$ 25,286	\$ 225,416	\$ 2,151,388	\$ 5,653,830
Receivables - Net	242,742	76,047	38,351	118,427	766	35,858	512,191
Prepaid costs and other assets	102,579	1,650	-	-	-	-	104,229
Restricted assets	-	-	-	716	-	-	716
Total assets	<u>\$ 1,989,854</u>	<u>\$ 1,221,316</u>	<u>\$ 501,939</u>	<u>\$ 144,429</u>	<u>\$ 226,182</u>	<u>\$ 2,187,246</u>	<u>\$ 6,270,966</u>
Liabilities and Fund Balances							
Liabilities							
Accounts payable	\$ 143,100	\$ 5,411	\$ 19,647	\$ -	\$ 11,671	\$ 9,183	\$ 189,012
Accrued and other liabilities	94,236	-	180	1,003	-	-	95,419
Liabilities to be paid from restricted assets	-	-	-	716	-	-	716
Due to other governmental units	119,381	-	-	-	-	-	119,381
Deferred revenue	-	-	-	118,316	-	34,414	152,730
Other liabilities	78,111	-	-	-	-	-	78,111
Total liabilities	434,828	5,411	19,827	120,035	11,671	43,597	635,369
Fund Balances							
Reserved for capital projects	-	-	-	-	214,511	491,001	705,512
Reserved for debt service	-	-	-	24,394	-	-	24,394
Unreserved - Reported in:							
General Fund	1,555,026	-	-	-	-	-	1,555,026
Special Revenue Funds	-	1,215,905	482,112	-	-	1,647,476	3,345,493
Capital Projects Funds	-	-	-	-	-	5,172	5,172
Total fund balances	<u>1,555,026</u>	<u>1,215,905</u>	<u>482,112</u>	<u>24,394</u>	<u>214,511</u>	<u>2,143,649</u>	<u>5,635,597</u>
Total liabilities and fund balances	<u>\$ 1,989,854</u>	<u>\$ 1,221,316</u>	<u>\$ 501,939</u>	<u>\$ 144,429</u>	<u>\$ 226,182</u>	<u>\$ 2,187,246</u>	<u>\$ 6,270,966</u>

Village of Beverly Hills, Michigan

Governmental Funds Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets June 30, 2006

Fund Balance - Total Governmental Funds	\$ 5,635,597
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Amounts reported for governmental activities in the statement
of net assets are different because:

Capital assets used in governmental activities are not financial resources and are not reported in the funds	9,011,975
The funds defer recognition of revenue on any amounts not collected within two months of the end of the year	152,730
State-shared revenue receivable is not reported in the funds unless it is collected soon after the end of the year	158,531
The funds do not report bond indebtedness as a liability until it comes due for payment	(185,000)
Employee compensated absences are not due and payable in the current period and are not reported in the funds	(420,285)
Employee pension liabilities are not due and payable in the current period and are not reported in the funds	(44,836)
Amounts on deposit with the Insurance Authority (MMRMA) are not reported as fund assets	<u>40,014</u>

Net Assets - Governmental Activities	<u>\$ 14,348,726</u>
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Village of Beverly Hills, Michigan

Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended June 30, 2006

	General	Major Streets	Local Streets	Coryell/ Hummel SAD	Capital Projects Infrastructure	Other Non- major Governmental Funds	Total Governmental Funds
Revenue							
Property taxes and related fees	\$ 4,670,435	\$ -	\$ 467,329	\$ -	\$ 937,721	\$ 122,887	\$ 6,198,372
Licenses and permits	186,097	-	-	-	-	-	186,097
Federal grants	16,004	-	-	-	-	-	16,004
State-shared revenues and grants	879,070	428,783	209,757	-	-	-	1,517,610
Special assessment	-	-	-	16,902	-	14,287	31,189
Contributions	-	-	-	-	12,977	-	12,977
Charges for services	277,065	-	-	-	-	451,200	728,265
Fines and forfeitures	151,168	-	-	-	-	9,613	160,781
Interest and rentals	125,732	39,992	24,406	-	24,514	132,587	347,231
Other	182,125	-	-	-	-	35,257	217,382
Total revenue	6,487,696	468,775	701,492	16,902	975,212	765,831	9,415,908
Expenditures							
Current:							
General government	928,993	-	-	-	-	395,850	1,324,843
Public safety	4,128,377	-	-	-	-	4,025	4,132,402
Public works	788,203	101,997	1,109,528	1,184	-	-	2,000,912
Library	501,181	-	-	-	-	-	501,181
Capital outlay	108,809	-	-	-	843,328	288,031	1,240,168
Debt service	-	-	-	55,000	-	-	55,000
Total expenditures	6,455,563	101,997	1,109,528	56,184	843,328	687,906	9,254,506
Excess of Revenue Over (Under) Expenditures	32,133	366,778	(408,036)	(39,282)	131,884	77,925	161,402
Other Financing Sources (Uses)							
Transfers in	-	-	-	-	-	56,286	56,286
Transfers out	(47,286)	-	-	-	-	-	(47,286)
Total other financing sources (uses)	(47,286)	-	-	-	-	56,286	9,000
Net Change in Fund Balances	(15,153)	366,778	(408,036)	(39,282)	131,884	134,211	170,402
Fund Balances - Beginning of year	1,570,179	849,127	890,148	63,676	82,627	2,009,438	5,465,195
Fund Balances - End of year	\$ 1,555,026	\$ 1,215,905	\$ 482,112	\$ 24,394	\$ 214,511	\$ 2,143,649	\$ 5,635,597

The Notes to Financial Statements are an
Integral Part of this Statement.

Village of Beverly Hills, Michigan

Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2006

Net Change in Fund Balances - Total Governmental Funds	\$	170,402
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation		1,244,197
Governmental funds do not report loss on the sale of fixed assets		(6,835)
Governmental funds do not report depreciation expense		(552,762)
The funds report revenue as it is collected or available, but the statement of activities reported it in prior years when earned		(171)
Revenue reported in the statement of activities that does not provide current financial resources and is not reported as revenue in the governmental funds (GASB No. 33)		(31,190)
Principal payments on bonds are recorded as expenditures in the fund-based statements		55,000
Increase in accumulated employee sick and vacation pay, employee pension liability, as well as estimated general liability claims, are recorded when earned in the statement of activities		<u>(43,087)</u>

Change in Net Assets of Governmental Activities	\$	<u>835,554</u>
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Village of Beverly Hills, Michigan

Enterprise Fund - Water and Sewer Statement of Net Assets June 30, 2006

Assets

Current assets:

Cash and cash equivalents	\$ 2,850,414
Restricted assets	430,524
Receivables - Net	820,562
Inventories	<u>9,795</u>

Total current assets 4,111,295

Noncurrent assets - Depreciable capital assets - Net 21,339,898

Total assets 25,451,193

Liabilities

Current liabilities:

Accounts payable	271,772
Accrued and other liabilities	11,322
Current portion of long-term debt	<u>591,702</u>

Total current liabilities 874,796

Noncurrent liabilities - Long-term debt - Net of current portion 7,943,029

Total liabilities 8,817,825

Net Assets

Investment in capital assets - Net of related debt	13,235,691
Unrestricted	<u>3,397,677</u>

Total net assets \$ 16,633,368

Village of Beverly Hills, Michigan

Enterprise Fund - Water and Sewer Statement of Revenue, Expenditures, and Changes in Net Assets Year Ended June 30, 2006

Operating Revenue

Sale of water	\$ 1,269,870
Sewage disposal charges	1,796,586
Interest and penalty charges	163,897
Meter charge	99,933
Rental income and other	6,371

Total operating revenue 3,336,657

Operating Expenses

Cost of water produced/purchased	618,323
Cost of sewage treatment	931,600
Administration charge	214,000
Repairs and maintenance	575,864
Depreciation	456,762
Other expenses	88,713

Total operating expenses 2,885,262

Operating Income 451,395

Nonoperating Revenue (Expense)

Investment income	6,188
Property taxes	208,124
Interest expense	(198,728)

Total nonoperating revenue 15,584

Net Income - Before transfers and contributions 466,979

Transfers to Other Funds (9,000)

Capital Contributions - Assets constructed by Capital Projects Infrastructure Fund 843,328

Increase in Net Assets 1,301,307

Net Assets - Beginning of year 15,332,061

Net Assets - End of year \$ 16,633,368

Village of Beverly Hills, Michigan

Enterprise Funds - Water and Sewer Statement of Cash Flows Year Ended June 30, 2006

Cash Flows from Operating Activities

Receipts from customers	\$ 3,338,724
Payments to suppliers	(2,369,267)
Internal activity - Payments to other funds	(214,000)
Other payments	<u>(101,536)</u>

Net cash provided by operating activities 653,921

Cash Flows from Capital and Related Financing Activities

Purchase of capital assets - Net of drawdowns on previously issued related debt	166,391
Proceeds from property tax levy	208,124
Principal and interest paid on capital debt	<u>(768,338)</u>

Net cash used in capital and related financing activities (393,823)

Cash Flows from Noncapital Financing Activities - Transfers out (9,000)

Cash Flows from Investing Activities - Interest received on investments 6,188

Net Increase in Cash and Cash Equivalents 257,286

Cash and Cash Equivalents - Beginning of year 2,593,128

Cash and Cash Equivalents - End of year \$ 2,850,414

Reconciliation of Operating Income to Net Cash from Operating Activities

Operating income	\$ 451,395
Adjustments to reconcile operating income to net cash from operating activities:	
Depreciation	456,762
Changes in assets and liabilities:	
Receivables	(8,618)
Other assets	597
Accounts payable	(243,481)
Accrued and other liabilities	<u>(2,734)</u>

Net cash provided by operating activities \$ 653,921

Noncash Capital and Related Financing Activities - During the current year, \$843,328 of sewer line additions were funded by a Capital Projects Fund. The sewer line additions were recorded as a fixed asset addition within the Enterprise Fund.

Village of Beverly Hills, Michigan

Fiduciary Funds Statement of Net Assets June 30, 2006

	Pension and Other Employee Benefits	Agency Fund
Assets		
Cash and cash equivalents	\$ 73,209	\$ 15,031
Investments in mutual funds	12,172,009	-
Common and preferred stock	3,074,155	-
Accrued interest receivable	18,194	63
Total assets	15,337,567	<u><u>\$ 15,094</u></u>
Liabilities - Accrued and other liabilities	<u>-</u>	<u><u>\$ 15,094</u></u>
Net Assets - Held in trust for pension and other employee benefits	<u><u>\$ 15,337,567</u></u>	

Village of Beverly Hills, Michigan

Fiduciary Funds Statement of Changes in Net Assets Year Ended June 30, 2006

	Pension and Other Employee Benefits
Additions - Investment income	
Interest and dividends	\$ 537,819
Employer contributions	203,693
Net increase in fair value of investments	<u>1,064,153</u>
Total additions	1,805,665
Deductions	
Benefit payments	767,945
Administrative expenses	<u>93,359</u>
Total deductions	<u>861,304</u>
Net Increase	944,361
Net Assets Held in Trust for Pension and Other Employee Benefits	
Beginning of year	<u>14,393,206</u>
End of year	<u><u>\$ 15,337,567</u></u>

Village of Beverly Hills, Michigan

Notes to Financial Statements June 30, 2006

Note 1 - Summary of Significant Accounting Policies

The accounting policies of the Village of Beverly Hills, Michigan (the "Village") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Village of Beverly Hills:

Reporting Entity

The Village of Beverly Hills is governed by an elected seven-member council. There are no component units for which the Village is considered to be financially accountable.

Jointly Governed Organizations

Jointly governed organizations are discussed in Note 12.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and the Enterprise Fund are reported as separate columns in the fund financial statements.

Village of Beverly Hills, Michigan

Notes to Financial Statements June 30, 2006

Note I - Summary of Significant Accounting Policies (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Village considers revenues to be available if they are collected within two months of the end of the current fiscal period (through August 31). The following major revenue sources meet the availability criterion: state-shared revenue, state gas and weight tax revenue, District Court fines, and interest associated with the current fiscal period. Conversely, federal grant reimbursements and special assessments will be collected after the period of availability; receivables have been recorded for these, along with a "deferred revenue" liability. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

The Village reports the following major governmental funds:

- The General Fund is the Village's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- The Major Streets Fund accounts for the resources of state gas and weight tax revenues that are restricted for use on major streets.
- The Local Streets Fund accounts for the resources of state gas and weight tax revenues that are restricted for use on local streets.
- The Capital Projects - Coryell/Hummel Special Assessment District Fund accounts for the special assessment taxes collected for specific construction projects.
- The Capital Projects - Infrastructure Millage Fund accounts for the resources of property taxes collected for construction of the Acacia Interceptor.

Village of Beverly Hills, Michigan

Notes to Financial Statements June 30, 2006

Note I - Summary of Significant Accounting Policies (Continued)

The Village reports one major proprietary fund. The Water and Sewer Fund accounts for the activities of the water distribution system and sewage collection system.

Additionally, the Village reports the following fund types:

- The Pension and Other Employee Benefits Fund accounts for the activities of the police and fire employees' retirement system, which accumulates resources for pension benefit payments to qualified police and fire employees.
- The Agency Fund accounts for assets held on behalf of third parties.

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The Village has elected not to follow private sector standards issued after November 30, 1989 for its business-type activities.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the Village's water and sewer function and various other functions of the Village. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the proprietary funds relates to charges to customers for sales and services. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Assets, Liabilities, and Net Assets or Equity

Bank Deposits and Investments - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Village of Beverly Hills, Michigan

Notes to Financial Statements June 30, 2006

Note I - Summary of Significant Accounting Policies (Continued)

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances." All trade and property tax receivables are considered to be fully collectible.

Inventories and Prepaid Items - Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

Restricted Assets - Restricted assets in the Enterprise Fund pertain to the Drinking Water Revolving Fund proceeds not yet drawn down.

Capital Assets - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the Village as assets with an initial individual cost of more than \$500 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Buildings and improvements other than buildings	50 years
Furniture and equipment	5-10 years
Vehicles	5 years
Infrastructure (excludes water mains and sewers)	10-50 years
Water mains and sewers	50 years
Meters	20 years

Village of Beverly Hills, Michigan

Notes to Financial Statements June 30, 2006

Note I - Summary of Significant Accounting Policies (Continued)

Compensated Absences (Vacation and Sick Leave) - It is the Village's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. All sick and vacation pay is accrued when incurred in the government-wide fund financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year end.

Long-term Obligations - In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Property Taxes - The Village's property tax is levied on each July 1 on the taxable valuation of the property (as defined by state statutes) located in the Village as of the preceding December 31. Taxes are considered delinquent on March 1 of the following year, at which time penalties and interest are assessed.

Village of Beverly Hills, Michigan

Notes to Financial Statements June 30, 2006

Note I - Summary of Significant Accounting Policies (Continued)

The Village's ad valorem tax is levied on July 1, 2005 and recognized as revenue for the June 30, 2006 budget year. The Village's property taxes were levied in the following manner:

2005 taxable valuation		<u>\$ 540,161,610</u>
		Revenues
	Mills Levied	Generated
Operating	8.6153	\$ 4,653,654
Operating - Local Street Fund	0.8615	465,349
Debt service	0.3853	208,124
Dedicated (infrastructure)	1.7360	937,721
Park	0.2275	122,887
Total	<u>11.8256</u>	<u>\$ 6,387,736</u>

These amounts are recognized in the respective General, Local Streets, Capital Projects, and Enterprise Funds financial statements as taxes receivable or tax revenue. Governmental funds recognize tax revenue in the year it is budgeted, to the extent it is collected within 60 days. Personal property taxes that are still unpaid as of June 30, 2006 will be recognized as revenue in the future as they are collected.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Village of Beverly Hills, Michigan

Notes to Financial Statements June 30, 2006

Note 2 - Stewardship, Compliance, and Accountability

Budgetary Information - The annual budget is prepared by the Village management and adopted by the Village Council; subsequent amendments are approved by the Village Council. Unexpended appropriations lapse at year end; encumbrances are not included as expenditures. The amount of encumbrances outstanding at June 30, 2006 has not been calculated. During the current year, the budget was amended in a legally permissible manner. The budget process begins in January when each department head calculates their appropriation request. This is due by the first Monday in March. The budget is submitted to the Village Council at the first meeting in April. During the next month, the Village Council reviews the budget and considers any changes. After a public hearing, the final budget is adopted by resolution no later than the second Monday in May.

The budget has been prepared in accordance with accounting principles generally accepted in the United States of America, except that operating transfers have been included in the revenue and expenditures categories, rather than as "other financing sources." The budget document presents information by fund, function, department, and line items. The level of budgetary control adopted by the Village Council is at the department level. If any department exceeds budget appropriations, the Village Council may, by resolution, amend the department's appropriation. Amounts encumbered for purchase orders, contracts, etc. are not tracked during the year. Budget appropriations are considered to be spent once the goods are delivered or the services rendered.

Village of Beverly Hills, Michigan

Notes to Financial Statements June 30, 2006

Note 2 - Stewardship, Compliance, and Accountability (Continued)

Construction Code Fees - The Village oversees building construction, in accordance with the State's Construction Code Act, including inspection of building construction and renovation to ensure compliance with the building codes. The Village charges fees for these services. Beginning January 1, 2000, the law requires that collection of these fees be used only for construction costs, including an allocation of estimated overhead costs. A summary of the current year activity and the cumulative shortfall generated since January 1, 2000 is as follows:

Shortfall at July 1, 2005		\$ (217,998)
Current year building permit revenue		189,119
Related expenses:		
Direct costs	\$ 260,738	
Estimated indirect costs	<u>9,616</u>	
Less total construction code expenses		<u>(270,354)</u>
Cumulative shortfall at June 30, 2006		<u><u>\$ (299,233)</u></u>

Note 3 - Deposits and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

Village of Beverly Hills, Michigan

Notes to Financial Statements June 30, 2006

Note 3 - Deposits and Investments (Continued)

The Pension Trust Fund is also authorized by Michigan Public Act 314 of 1965, as amended, to invest in certain reverse repurchase agreements, stocks, diversified investment companies, annuity investment contracts, real estate leased to public entities, mortgages, real estate (if the trust fund's assets exceed \$250 million), debt or equity of certain small businesses, certain state and local government obligations, and certain other specified investment vehicles.

The Village has designated nine banks for the deposit of its funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in bonds and securities of the United States government and bank accounts and CDs, but not the remainder of state statutory authority as listed above. The Village's deposits and investment policies are in accordance with statutory authority.

The Village's cash and investments are subject to several types of risk, which are examined in more detail below:

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Village's deposits may not be returned to it. The Village's investment policy restricts bank deposits to Michigan-based banks (in accordance with state law); there are no further restrictions on custodianship of bank deposits. At year end, the Village had approximately \$2,855,000 of bank deposits (certificates of deposit, checking and savings accounts) that were uninsured and uncollateralized. The Village believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Village evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Interest Rate Risk

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The Village's investment policy restricts the maturity of commercial paper, which can only be purchased with a 270-day maturity. At year end, the Village had approximately \$3,838,000 invested in fixed income mutual funds with a weighted average maturity of 4.9 years (held by its pension system).

Village of Beverly Hills, Michigan

Notes to Financial Statements June 30, 2006

Note 3 - Deposits and Investments (Continued)

Credit Risk

State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The Village's investment policy does not further limit its investment choices. As of year end, the Village had approximately \$7,284,000 invested in mutual funds that were unrated, \$1,112,000 in mutual funds with a three-star rating from Morningstar, and \$46,000 in mutual funds with an Aaa rating from Standard & Poor's.

Note 4 - Receivables

Receivables as of year end for the Village's individual major funds and nonmajor funds are as follows:

	General Fund	Major Streets Fund	Local Streets Fund	Special Assessment District	Dedicated Millage	Nonmajor and Other Funds	Total Governmental	Business - type Activities
Receivables:								
Taxes	\$ 45,551	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 45,551	\$ -
Special assessment	-	-	-	118,316	-	11,065	129,381	-
Intergovernmental	165,578	72,068	34,635	-	-	23,348	295,629	-
Customer billings	-	-	-	-	-	-	-	619,497
Interest and other	190,144	3,979	3,716	111	766	1,445	200,161	201,065
Total receivables	<u>\$ 401,273</u>	<u>\$ 76,047</u>	<u>\$ 38,351</u>	<u>\$ 118,427</u>	<u>\$ 766</u>	<u>\$ 35,858</u>	<u>\$ 670,722</u>	<u>\$ 820,562</u>

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, deferred revenue in the amount of \$152,730 relates to unavailable deferred revenue for special assessments. There was no unearned deferred revenue as of June 30, 2006.

Village of Beverly Hills, Michigan

Notes to Financial Statements June 30, 2006

Note 5 - Capital Assets

Capital asset activity of the Village's governmental and business-type activities was as follows:

	Balance July 1, 2005	Additions	Disposals and Adjustments	Balance June 30, 2006
Governmental Activities				
Capital assets not being depreciated:				
Land	\$ 209,937	\$ -	\$ -	\$ 209,937
Construction in progress	51,000	81,727	(51,000)	81,727
Net capital assets not being depreciated	260,937	81,727	(51,000)	291,664
Capital assets being depreciated:				
Buildings	2,256,698	-	-	2,256,698
Improvements other than buildings	809,926	223,477	51,000	1,084,403
Infrastructure (excludes water mains and sewers)	7,905,028	868,809	-	8,773,837
Furniture and equipment	1,935,139	70,184	(75,753)	1,929,570
Subtotal	12,906,791	1,162,470	(24,753)	14,044,508
Accumulated depreciation:				
Buildings	869,032	46,203	-	915,235
Improvements other than buildings	181,261	70,101	-	251,362
Infrastructure (excludes water mains and sewers)	2,431,582	285,511	-	2,717,093
Furniture and equipment	1,358,478	150,947	(68,918)	1,440,507
Subtotal	4,840,353	552,762	(68,918)	5,324,197
Net capital assets being depreciated	8,066,438	609,708	44,165	8,720,311
Net capital assets	<u>\$ 8,327,375</u>	<u>\$ 691,435</u>	<u>\$ (6,835)</u>	<u>\$ 9,011,975</u>
Business-type Activities				
Capital assets being depreciated:				
Water mains	\$ 5,212,398	\$ 1,098,786	\$ -	\$ 6,311,184
Sanitary sewers	17,869,289	843,328	-	18,712,617
Meters	525,415	12,656	-	538,071
Service buildings	42,163	-	-	42,163
Motor vehicles	83,552	-	-	83,552
Furniture and equipment	139,104	-	-	139,104
Subtotal	23,871,921	1,954,770	-	25,826,691
Accumulated depreciation:				
Water mains	530,654	61,632	-	592,286
Sanitary sewers	2,848,577	376,987	-	3,225,564
Meters	393,264	13,763	-	407,027
Service buildings	42,163	-	-	42,163
Motor vehicles	76,269	4,380	-	80,649
Furniture and equipment	139,104	-	-	139,104
Subtotal	4,030,031	456,762	-	4,486,793
Net capital assets being depreciated	19,841,890	1,498,008	-	21,339,898
Net capital assets	<u>\$ 19,841,890</u>	<u>\$ 1,498,008</u>	<u>\$ -</u>	<u>\$ 21,339,898</u>

Village of Beverly Hills, Michigan

Notes to Financial Statements June 30, 2006

Note 5 - Capital Assets (Continued)

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities:

General government	\$ 37,361
Public safety	161,304
Public works	345,601
Community and economic development	<u>8,496</u>

Total governmental activities	<u><u>\$ 552,762</u></u>
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Business-type activities - Water and Sewer Fund	\$ 456,762
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Note 6 - Interfund Transfers

Interfund transfers reported in the fund financial statements are comprised of the following:

<u>Fund Transferred from</u>	<u>Fund Transferred to</u>	<u>Amount</u>
General Fund	Capital Projects Fund (a nonmajor governmental fund)	\$ 47,286
Water and Sewer Fund	Capital Projects Fund (a nonmajor governmental fund)	<u>9,000</u>
	Total	<u><u>\$ 56,286</u></u>

General Fund transfers were used for infrastructure and other capital improvements. Transfer to other governmental funds was used to reimburse the Capital Projects Fund for improvements related to business-type assets.

Village of Beverly Hills, Michigan

Notes to Financial Statements June 30, 2006

Note 7 - Long-term Debt

The Village issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the Village. County contractual agreements are also general obligations of the government. Special assessment bonds provide for capital improvements that benefit specific properties, and will be repaid from amounts levied against those properties benefited from the construction. In the event that a deficiency exists because of unpaid or delinquent special assessments at the time a debt service payment is due, the Village is obligated to provide resources to cover the deficiency until other resources (such as tax sale proceeds or a re-assessment of the district) are received.

The Village's special assessment limited tax bonds issued in February 2003 call for any prepayments of special assessments to be accumulated and applied each October to pay down the bond principal. This mechanism is intended to save the Village interest expense on these bonds, which is at a higher rate than the Village is likely to earn on the investment of these prepayments.

	Beginning Balance July 1, 2005	Additions (Reductions)	Ending Balance June 30, 2006	Due Within One Year
Governmental activities:				
2003 Special Assessment Limited Tax Bonds maturing through October 2012 with interest at 5%	\$ 240,000	\$ (55,000)	\$ 185,000	\$ 55,000
Accumulated employee compensation	<u>377,597</u>	<u>42,688</u>	<u>420,285</u>	<u>252,855</u>
Total governmental activities	<u>\$ 617,597</u>	<u>\$ (12,312)</u>	<u>\$ 605,285</u>	<u>\$ 307,855</u>
Business-type activities:				
1990 Evergreen/Farmington Sewage System Bonds, maturing through October 2009 with interest at 7%	\$ 378,486	\$ (68,338)	\$ 310,148	\$ 66,936
1991 Evergreen/Farmington Permanent Meter and Interceptor Rehab Bonds, maturing through April 2010 with interest at 2.628%	41,385	(7,884)	33,501	7,621
1997 John Garfield Drain Bonds, maturing through November 2017 with interest ranging from 3.87% to 4.97%	76,621	(4,199)	72,422	4,461
1998 North Arm Relief Drain Contract with City of Royal Oak (to support the Village's portion of Royal Oak bonds), maturing through September 2020 with interest at 2.25%	302,590	(15,874)	286,716	16,271
2000 George W. Kuhn Drain Bond Series A, maturing through April 2022 with interest at 2.5%	127,761	(6,132)	121,629	6,295

Village of Beverly Hills, Michigan

Notes to Financial Statements June 30, 2006

Note 7 - Long-term Debt (Continued)

	Beginning Balance July 1, 2005	Additions (Reductions)	Ending Balance June 30, 2006	Due Within One Year
Business-type activities (Continued):				
2000 George W. Kuhn Drain Bond Series B, maturing through April 2022 with interest ranging from 4.75% to 5.375%	\$ 47,172	\$ (1,827)	\$ 45,345	\$ 2,031
2001 George W. Kuhn Drain Bond Series C, maturing through April 2024 with interest at 2.5%	641,487	(26,803)	614,684	27,453
2001 George W. Kuhn Drain Bond Series D, maturing through April 2024 with interest at 2.5%	25,747	(1,015)	24,732	1,056
2001 George W. Kuhn Drain Bond Series E, maturing through April 2024 with interest ranging from 4% to 5.25%	77,322	(2,842)	74,480	2,843
1994 CSO Drain Bonds - Series 1994A, maturing through October 2015 with interest at 2%	624,512	(51,120)	573,392	54,528
1999 CSO Drain Bonds - Series 1999, maturing through October 2015 with interest ranging from 3.5% to 4.6%	357,840	(34,080)	323,760	34,080
2003 Rummel Relief Drainage District Drain Bonds - Series 2003, maturing through May 2023 with interest ranging from 2.6% to 4.7%	303,698	(13,423)	290,275	13,423
2003 CSO Drain Refunding Bonds - Series 2003, maturing through October 2014 with interest ranging from 1% to 3%	2,545,776	(201,073)	2,344,703	214,704
2003 Drinking Water Revolving Fund Loan, maturing through April 2025 with interest at 2.125%	<u>3,690,000</u>	<u>(150,000)</u>	<u>3,540,000</u>	<u>155,000</u>
Subtotal business-type activities	9,240,397	(584,610)	8,655,787	606,702
Less deferred charge on refunding of bonds*	<u>(136,056)</u>	<u>15,000</u>	<u>(121,056)</u>	<u>(15,000)</u>
Total business-type activities	<u>\$ 9,104,341</u>	<u>\$ (569,610)</u>	<u>\$ 8,534,731</u>	<u>\$ 591,702</u>

* During 2001, Oakland County refinanced the 1990 Evergreen/Farmington bond issue. In addition, during 2004, Oakland County refinanced the 1994B and 1995C CSO Drain Bond issues. With the refinancing of both these issues, Oakland County included bond issuance costs in the new principal amount. The Village of Beverly Hills has an agreement with Oakland County to pay a portion of these bonds. The deferred charge referred to above represents the Village's portion of these costs, net of amortized expenses of \$12,548 and \$36,636, respectively, at June 30, 2006.

Village of Beverly Hills, Michigan

Notes to Financial Statements June 30, 2006

Note 7 - Long-term Debt (Continued)

Annual debt service requirements to maturity for the above obligations (excluding employee benefits) are as follows:

	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2007	\$ 55,000	\$ 7,875	\$ 62,875	\$ 606,702	\$ 141,937	\$ 748,639
2008	55,000	5,125	60,125	640,931	127,209	768,140
2009	50,000	2,500	52,500	651,503	180,544	832,047
2010	25,000	625	25,625	681,877	163,258	845,135
2011	-	-	-	608,821	147,020	845,135
2012-2016	-	-	-	2,914,475	509,294	3,822,195
2017-2021	-	-	-	1,477,290	226,935	1,725,577
2022-2025	-	-	-	1,074,188	102,221	1,504,641
Total	<u>\$ 185,000</u>	<u>\$ 16,125</u>	<u>\$ 201,125</u>	<u>\$ 8,655,787</u>	<u>\$ 1,598,418</u>	<u>\$ 11,091,509</u>

Note 8 - Restricted Assets

Restricted assets at June 30, 2006 consisted of the following:

	Governmental Activities	Business-type Activities	Total
Construction retainage and related interest	\$ 716	\$ -	\$ 716
Drinking Water Revolving Fund proceeds	-	430,524	430,524
Total	<u>\$ 716</u>	<u>\$ 430,524</u>	<u>\$ 431,240</u>

The amount related to Drinking Water Revolving Fund proceeds relates to amounts not yet drawn down. Since the restricted assets result from the issuance of debt, retained earnings have not been reserved.

Note 9 - Risk Management

The Village is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Village has purchased commercial insurance for medical claims and participates in the Michigan Municipal League Workers' Compensation for claims relating to workers' compensation and the Michigan Municipal Risk Management Authority for general liability claims.

Village of Beverly Hills, Michigan

Notes to Financial Statements June 30, 2006

Note 9 - Risk Management (Continued)

The Michigan Municipal Risk Management Authority (the "Authority") operates as a claims-servicing pool for amounts up to member retention limits, and operates as a common risk-sharing management program for losses in excess of member retention amounts. Although premiums are paid annually to the Authority that the Authority uses to pay claims up to the retention limits, the ultimate liability for those claims remains with the Village. The Authority assists the Village in estimating claims for additional liabilities that may be paid beyond the balance sheet date. It is estimated that any such claims are insignificant for each of the last two years. Therefore, no liability has been recorded.

The Michigan Municipal League risk pool program operates as a common risk-sharing management program for local units of government in Michigan. Member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts. Settled claims relating to the commercial insurance did not exceed the amount of insurance coverage in any of the past three fiscal years.

Note 10 - Other Postemployment Benefits

The Village provides health care benefits to all full-time employees upon retirement, in accordance with labor contracts. Currently, there are 26 retirees receiving benefits. All activity related to the funding of these benefits is recorded in the Retiree Health Care Fund. Expenses are accrued based on the actuary valuation. Current year expenditures were approximately \$344,000.

Upcoming Reporting Change - The Governmental Accounting Standards Board has recently released Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ending June 30, 2009.

Village of Beverly Hills, Michigan

Notes to Financial Statements June 30, 2006

Note 11 - Pension Plans

Public Safety Officers' Retirement System

Plan Description - The Village of Beverly Hills Public Safety Officers' Retirement System (the "Plan") is a single-employer defined benefit pension plan that is administered by a board of trustees consisting of the Village president, a Village council member, a citizen, and two public safety officers. The Plan covers all full-time public safety employees of the Village. The Plan provides retirement, disability, and death benefits to Plan members and their beneficiaries. At December 31, 2005, the date of the most recent actuarial valuation, membership consisted of 23 retirees and beneficiaries currently receiving benefits, terminated employees entitled to benefits but not yet receiving them, and 24 current active employees. The Plan does not issue a separate financial report.

Contributions - As of July 1, 1976, the Plan was amended to make it a noncontributory plan by eliminating required employee contributions. Employer contributions to the Plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan. The obligation to contribute to and maintain the Plan for these employees was established by negotiation with the Village's competitive bargaining units. The funding policy provides for periodic employer contributions at actuarially determined rates. Administrative costs of the plan are financed through investment earnings.

Annual Pension Cost - For the year ended June 30, 2006, the Village's annual pension cost of \$198,851 for the Plan consisted of an actuarially required contribution of \$203,693 plus interest on the prior year's net pension obligation of \$3,477 less an adjustment to the actuarially required contribution (as a result of the underfunding) of \$8,319. The annual required contribution was determined as part of an actuarial valuation at December 31, 2004. Significant actuarial assumptions used include (a) a 7 percent investment rate of return, (b) projected salary increases of 4 percent to 8 percent per year, and (c) no cost-of-living adjustments. Both (a) and (b) include an inflation component of 4 percent. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a five-year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on a closed basis. The remaining amortization period is 10 years.

Village of Beverly Hills, Michigan

Notes to Financial Statements June 30, 2006

Note 11 - Pension Plans (Continued)

Three-year Trend Information

	Fiscal Year Ended June 30		
	2004	2005	2006
Annual pension costs (APC)	\$ 54,203	\$ 84,908	\$ 198,851
Percentage of APC contributed	0%	105%	102%
Net pension obligation	\$ 54,203	\$ 49,678	\$ 44,836

	Actuarial Valuation as of December 31		
	2004	2005	2006
Actuarial value of assets	\$ 14,001,713	\$ 14,121,531	\$ 14,347,504
Actuarial accrued liability (AAL) (entry age)	\$ 12,067,589	\$ 12,893,782	\$ 13,538,767
Unfunded AAL (UAAL)	\$ (1,934,124)	\$ (1,227,749)	\$ (808,737)
Funded ratio	116%	110%	106%
Covered payroll	\$ 1,566,002	\$ 1,708,616	\$ 1,721,163
UAAL as a percentage of covered payroll	- %	- %	- %

MMERS Retirement System

Plan Description - The Village participates in the Michigan Municipal Employees' Retirement System (MMERS), an agent multiple-employer defined benefit pension plan that covers the administrative staff. The MMERS provides retirement, disability, and death benefits to plan members and their beneficiaries. The MMERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the MMERS at 1134 Municipal Way, Lansing, MI 48917.

Funding Policy - The obligation to contribute to and maintain the MMERS for these employees was established by negotiation with the Village's competitive bargaining units and does not require a contribution from the employees.

Village of Beverly Hills, Michigan

Notes to Financial Statements June 30, 2006

Note 11 - Pension Plans (Continued)

Annual Pension Cost - For the year ended June 30, 2006, the Village's annual pension cost of approximately \$105,000 for the MMERS was equal to the Village's required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2004, using the entry age actuarial cost method. Significant actuarial assumptions used include (a) an 8 percent investment rate of return, (b) projected salary increases of 4.5 percent to 12.9 percent per year, and (c) no cost-of-living adjustments. Both (a) and (b) include an inflation component of 4.5 percent. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a five-year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on a closed basis. The remaining amortization period is 30 years.

Three-year Trend Information

	Fiscal Year Ended June 30		
	2004	2005	2006
Annual pension costs (APC)	\$ 55,166	\$ 78,320	\$ 104,566
Percentage of APC contributed	100%	100%	100%
Net pension obligation	\$ -	\$ -	\$ -

	Actuarial Valuation as of December 31		
	2004	2005	2006
Actuarial value of assets	\$ 1,922,618	\$ 2,059,834	\$ 2,219,942
Actuarial accrued liability (AAL) (entry age)	\$ 2,001,073	\$ 2,301,975	\$ 2,385,419
Unfunded AAL (UAAL)	\$ 78,455	\$ 242,141	\$ 165,477
Funded ratio	96%	89%	93%
Covered payroll	\$ 631,209	\$ 773,604	\$ 763,976
UAAL as a percentage of covered payroll	12%	31%	22%

Village of Beverly Hills, Michigan

Notes to Financial Statements June 30, 2006

Note 12 - Joint Ventures

Birmingham Area Cablecasting Board

The Village is a member of the Birmingham Area Cablecasting Board (BACB), which provides cable program-coordinating services to the residents of Birmingham, Beverly Hills, and Franklin Village. The Village's equity interest in the joint venture is insignificant. The Village is unaware of any circumstances that would cause an additional financial benefit or burden to the participating governments in the near future. Complete financial statements for the BACB can be obtained from the administrative offices at P.O. Box 165, Birmingham, MI 48012.

Southeastern Oakland County Water Authority

The Village is a member of the Southeastern Oakland County Water Authority (the "Water Authority"), which provides a water supply system serving 11 member municipalities in Oakland County. The Village appoints one member of the joint venture's governing board, which approves the annual budget. The participating communities provide funding for its operations. During the year ended June 30, 2006, the Village expensed \$611,007 of payments made to the Water Authority. The Village has no explicit and measurable equity interest in the joint venture. The Southeastern Oakland County Water Authority's operations are financially independent of the Village. The Village is unaware of any circumstances that would cause an additional financial benefit or burden to the participating governments in the near future. The Southeastern Oakland County Water Authority has a debt issue, with a total balance outstanding as of June 30, 2006 of \$6,605,000, of which the Village has guaranteed approximately \$288,000. Complete financial statements for the Southeastern Oakland County Water Authority can be obtained from the administrative offices at 3910 Webster Road, Royal Oak, MI 48073.

Required Supplemental Information

Village of Beverly Hills, Michigan

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2006

	Original Budget	Amended Budget	Actual	Variance with Amended Budget - Favorable (Unfavorable)
Revenues				
Tax collection, state revenue, etc.	\$ 6,219,028	\$ 6,436,551	\$ 6,487,696	\$ 51,145
Fund balance appropriated	307,159	165,636	-	-
Total revenues	<u>\$ 6,526,187</u>	<u>\$ 6,602,187</u>	<u>\$ 6,487,696</u>	<u>\$ 51,145</u>
Expenditures				
Village Council	\$ 56,568	\$ 56,568	\$ 48,674	\$ 7,894
Manager	291,406	291,406	290,109	1,297
Finance director	231,909	231,909	231,525	384
Buildings and grounds	43,919	43,919	38,464	5,455
General government	250,092	325,092	320,221	4,871
Public safety:				
Police and fire	3,738,735	3,772,735	3,742,275	30,460
School liaison office	110,684	110,684	108,327	2,357
Building and planning	279,786	279,786	277,775	2,011
Public services	817,572	757,572	723,007	34,565
Community action programs	60,940	71,940	65,196	6,744
Library	501,596	501,596	501,181	415
Capital purchases	139,980	109,980	108,809	1,171
Transfers out	3,000	49,000	47,286	1,714
Total charges to appropriations	<u>\$ 6,526,187</u>	<u>\$ 6,602,187</u>	<u>\$ 6,502,849</u>	<u>\$ 99,338</u>
Fund Balance - Beginning of year	\$ 1,563,989	\$ 1,570,179	\$ 1,570,179	\$ -
Fund balance appropriated/shortage	(307,159)	(165,636)	(15,153)	150,483
Fund Balance - End of year	<u>\$ 1,256,830</u>	<u>\$ 1,404,543</u>	<u>\$ 1,555,026</u>	<u>\$ 150,483</u>

Village of Beverly Hills, Michigan

Required Supplemental Information Budgetary Comparison Schedule - Major Streets Fund Year Ended June 30, 2006

	Original Budget	Amended Budget	Actual	Variance with Amended Budget - Favorable (Unfavorable)
Revenues	<u>\$ 448,472</u>	<u>\$ 448,472</u>	<u>\$ 468,775</u>	<u>\$ 20,303</u>
Expenditures	<u>\$ 448,472</u>	<u>\$ 448,472</u>	<u>\$ 101,997</u>	<u>\$ 346,475</u>
Fund Balance - Beginning of year	\$ 537,948	\$ 849,127	\$ 849,127	\$ -
Fund balance appropriated/surplus	-	-	366,778	366,778
Fund Balance - End of year	<u>\$ 537,948</u>	<u>\$ 849,127</u>	<u>\$ 1,215,905</u>	<u>\$ 366,778</u>

Village of Beverly Hills, Michigan

Required Supplemental Information Budgetary Comparison Schedule - Local Streets Fund Year Ended June 30, 2006

	Original Budget	Amended Budget	Actual	Variance with Amended Budget - Favorable (Unfavorable)
Revenues	\$ 700,384	\$ 700,384	\$ 701,492	\$ 1,108
Fund balance appropriated	189,597	528,597	-	-
Total revenues	<u>\$ 889,981</u>	<u>\$ 1,228,981</u>	<u>\$ 701,492</u>	<u>\$ 1,108</u>
Expenditures	<u>\$ 889,981</u>	<u>\$ 1,228,981</u>	<u>\$ 1,109,528</u>	<u>\$ 119,453</u>
Fund Balance - Beginning of year	\$ 542,870	\$ 890,148	\$ 890,148	\$ -
Fund balance appropriated/surplus	(189,597)	(528,597)	(408,036)	120,561
Fund Balance - End of year	<u>\$ 353,273</u>	<u>\$ 361,551</u>	<u>\$ 482,112</u>	<u>\$ 120,561</u>

Village of Beverly Hills, Michigan

Required Supplemental Information Pension System Schedule of Funding Progress Public Safety Officers' Retirement System (dollar amounts in thousands)

The schedule of funding progress is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (Percent) (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll
12/31/00	\$ 15,000	\$ 10,200	\$ (4,800)	147	\$ 1,400	-
12/31/01	15,600	10,900	(4,700)	143	1,500	-
12/31/02	13,900	11,700	(2,200)	119	1,600	-
12/31/03	14,000	12,000	(2,000)	116	1,600	-
12/31/04	14,100	12,900	(1,200)	110	1,700	-
12/31/05	14,300	13,500	(809)	106	1,700	-

The schedule of employer contributions is as follows:

Fiscal Year Ended	Actuarial Valuation Date	Annual Required Contribution*	Percentage Contributed
06/30/01	12/31/00	\$ -	-
06/30/02	12/31/01	-	-
06/30/03	12/31/02	-	-
06/30/04	12/31/03	54,203	-
06/30/05	12/31/04	89,433	105.0
06/30/06	12/31/05	203,693	102.0

* The required contribution is expressed to the Village as a percentage of payroll.

The information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of December 31, 2005, the latest actuarial valuation, follows:

Actuarial cost method	Entry age
Amortization method	Level percent of payroll
Amortization period (perpetual)	10 years
Asset valuation method	5-year smoothed market
Actuarial assumptions:	
Investment rate of return	7%
Projected salary increases*	4% - 8%
*Includes inflation at	4.0%
Cost of living adjustments	None

Other Supplemental Information

Village of Beverly Hills, Michigan

Special Revenue Funds				
	Drug Forfeiture	Sick Pay Severance	Vacation Reserve Fund	Retiree Health Care
Assets				
Cash and investments	\$ 10,156	\$ 179,835	\$ 268,845	\$ 1,194,449
Receivables - Net	43	-	-	302
Total assets	<u>\$ 10,199</u>	<u>\$ 179,835</u>	<u>\$ 268,845</u>	<u>\$ 1,194,751</u>
Liabilities and Fund Balances				
Liabilities				
Accounts payable	\$ -	\$ -	\$ -	\$ 6,154
Deferred revenue	-	-	-	-
Total liabilities	-	-	-	6,154
Fund Balances				
Reserved	-	-	-	-
Unreserved	10,199	179,835	268,845	1,188,597
Total fund balances	10,199	179,835	268,845	1,188,597
Total liabilities and fund balances	<u>\$ 10,199</u>	<u>\$ 179,835</u>	<u>\$ 268,845</u>	<u>\$ 1,194,751</u>

**Other Supplemental Information
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2006**

Capital Projects Funds			Total
Capital Projects Fund	Special Park Millage	Stafford Special Assessment District	Nonmajor Governmental Funds
\$ 383,941	\$ 109,011	\$ 5,151	\$ 2,151,388
617	461	34,435	35,858
<u>\$ 384,558</u>	<u>\$ 109,472</u>	<u>\$ 39,586</u>	<u>\$ 2,187,246</u>
\$ 3,029	\$ -	\$ -	\$ 9,183
-	-	34,414	34,414
3,029	-	34,414	43,597
381,529	109,472	-	491,001
-	-	5,172	1,652,648
<u>381,529</u>	<u>109,472</u>	<u>5,172</u>	<u>2,143,649</u>
<u>\$ 384,558</u>	<u>\$ 109,472</u>	<u>\$ 39,586</u>	<u>\$ 2,187,246</u>

Village of Beverly Hills, Michigan

	Special Revenue Funds			
	Drug Forfeiture	Sick Pay Severance	Vacation Reserve Fund	Retiree Health Care
Revenue				
Property taxes	\$ -	\$ -	\$ -	\$ -
Special assessment revenue	-	-	-	-
Charges to other funds	-	22,602	37,211	391,387
Fines and forfeitures	9,613	-	-	-
Interest income	366	6,421	9,035	80,323
Other	-	-	-	-
Total revenue	9,979	29,023	46,246	471,710
Expenditures				
Administrative	-	-	4,986	-
Health care	-	-	-	378,724
Police supplies	4,025	-	-	-
Sick leave	-	12,140	-	-
Capital outlay	-	-	-	-
Total expenditures	4,025	12,140	4,986	378,724
Excess of Revenue Over (Under)				
Expenditures	5,954	16,883	41,260	92,986
Other Financing Sources - Transfers in	-	-	-	-
Net Change in Fund Balances	5,954	16,883	41,260	92,986
Fund Balances (Deficit) - Beginning of year	4,245	162,952	227,585	1,095,611
Fund Balances - End of year	<u>\$ 10,199</u>	<u>\$ 179,835</u>	<u>\$ 268,845</u>	<u>\$ 1,188,597</u>

Other Supplemental Information
Combining Statement of Revenue, Expenditures, and Changes
in Fund Balances (Deficit) - Nonmajor Governmental Funds
Year Ended June 30, 2006

Capital Projects Funds			Total
Capital Projects Fund	Special Park Millage	Stafford Special Assessment District	Nonmajor Governmental Funds
\$ -	\$ 122,887	\$ -	\$ 122,887
-	-	14,287	14,287
-	-	-	451,200
-	-	-	9,613
28,056	5,932	2,454	132,587
28,057	7,200	-	35,257
56,113	136,019	16,741	765,831
-	-	-	4,986
-	-	-	378,724
-	-	-	4,025
-	-	-	12,140
63,514	224,517	-	288,031
63,514	224,517	-	687,906
(7,401)	(88,498)	16,741	77,925
56,286	-	-	56,286
48,885	(88,498)	16,741	134,211
332,644	197,970	(11,569)	2,009,438
\$ 381,529	\$ 109,472	\$ 5,172	\$ 2,143,649

Village of Beverly Hills, Michigan

**Federal Awards
Supplemental Information
June 30, 2006**

Village of Beverly Hills, Michigan

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Independent Auditor's Report

To the Village Council
Village of Beverly Hills, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Village of Beverly Hills, Michigan as of and for the year ended June 30, 2006, which collectively comprise the Village's basic financial statements, and have issued our report thereon dated September 20, 2006. Those basic financial statements are the responsibility of the management of Village of Beverly Hills, Michigan. Our responsibility was to express opinions on those basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Village of Beverly Hills, Michigan's basic financial statements. The accompanying schedule of expenditures of federal awards and reconciliation of basic financial statements federal revenue with schedule of expenditures of federal awards are presented for the purpose of additional analysis and are not required parts of the basic financial statements. The information presented has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Plante & Moran, PLLC

September 20, 2006



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Report on Internal Control Over Financial Reporting and on Compliance
and Other Matters Based on an Audit of Financial Statements Performed
in Accordance with *Government Auditing Standards*

To the Village Council
Village of Beverly Hills, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Village of Beverly Hills, Michigan as of and for the year ended June 30, 2006, which collectively comprise the Village's basic financial statements, and have issued our report thereon dated September 20, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Village of Beverly Hills, Michigan's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Village of Beverly Hills, Michigan's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying schedule of findings and questioned costs as item 06-I.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is not a material weakness.

We noted certain matters that we have reported to the management of Village of Beverly Hills, Michigan in a separate letter dated September 20, 2006.

To the Village Council
Village of Beverly Hills, Michigan

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Village of Beverly Hills, Michigan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Village Council, management, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Plante & Moreau, PLLC

September 20, 2006

**Report on Compliance with Requirements Applicable to Each Major Program
and on Internal Control Over Compliance in Accordance with OMB Circular A-133**

To the Village Council
Village of Beverly Hills, Michigan

Compliance

We have audited the compliance of Village of Beverly Hills, Michigan with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to its major federal program for the year ended June 30, 2006. The major federal program of Village of Beverly Hills, Michigan is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of Village of Beverly Hills, Michigan's management. Our responsibility is to express an opinion on Village of Beverly Hills, Michigan's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Village of Beverly Hills, Michigan's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Village of Beverly Hills, Michigan's compliance with those requirements.

In our opinion, Village of Beverly Hills, Michigan complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2006.

To the Village Council
Village of Beverly Hills, Michigan

Internal Control Over Compliance

The management of Village of Beverly Hills, Michigan is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Village of Beverly Hills, Michigan's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Village Council, management, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Plante & Moran, PLLC

September 20, 2006

Village of Beverly Hills, Michigan

Schedule of Expenditures of Federal Awards Year Ended June 30, 2006

Federal Agency/Pass-through Agency/Program Title	CFDA Number	Pass-through Entity Project/Grant Number	Award Amount	Federal Expenditures
U.S. Department of Housing and Urban Development - Community Development Block Grant passed through Oakland County, Michigan:				
Program year 2005	14.218	various	\$ 22,276	\$ 4,215
Program year 2004	14.218	various	22,276	12,578
Program year 2003	14.218	various	19,545	<u>909</u>
Total U.S. Department of Housing and Urban Development				17,702
U.S. Environmental Protection Agency - Water Main Drinking Water Revolving Fund passed through the State of Michigan	66.468	7137-01	2,544,255	847,861
U.S. Department of Justice - Law Enforcement Assistance - Narcotics and Dangerous Drugs	16.001		4,025	<u>4,025</u>
Total federal expenditures				<u>\$ 869,588</u>

Village of Beverly Hills, Michigan

Reconciliation of Basic Financial Statements Federal Revenue with Schedule of Expenditures of Federal Awards Year Ended June 30, 2006

Revenue from federal sources - As reported on financial statements within the governmental funds	\$ 16,004
Grant revenue not received within 60 days of current year end - Community Development Block Grant	1,698
Grant revenue received in a prior year, but spent in the current year - Law Enforcement Assistance - Narcotics and Dangerous Drugs	4,025
Federal revenue not reported in the financial statements - Drinking Water Revolving Fund	<u>847,861</u>
Federal expenditures per the schedule of expenditures of federal awards	<u><u>\$ 869,588</u></u>

Village of Beverly Hills, Michigan

Note to Schedule of Expenditures of Federal Awards Year Ended June 30, 2006

Note - Significant Accounting Policies

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Village of Beverly Hills, Michigan and is presented on the same basis of accounting as the basic financial statements. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Village of Beverly Hills, Michigan

Schedule of Findings and Questioned Costs Year Ended June 30, 2006

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? ☐ Yes ☒ No
- Reportable condition(s) identified that are not considered to be material weaknesses? ☒ Yes ☐ None reported

Noncompliance material to financial statements noted? ☐ Yes ☒ No

Federal Awards

Internal control over major program(s):

- Material weakness(es) identified? ☐ Yes ☒ No
- Reportable condition(s) identified that are not considered to be material weaknesses? ☐ Yes ☒ None reported

Type of auditor's report issued on compliance for major program(s): Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? ☐ Yes ☒ No

Identification of major program(s):

CFDA Number(s)	Name of Federal Program or Cluster
66.468	Drinking Water Revolving Fund

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee? ☐ Yes ☒ No

Village of Beverly Hills, Michigan

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2006

Section II - Financial Statement Audit Findings

Reference Number	Findings
06-I	<p>Finding Type - Reportable condition</p> <p>Condition - Lack of segregation of duties surrounding the cash receipt, reconciliation, and investment process and other duties</p> <p>Description - Currently, the same individual prepares the bank reconciliations, performs general ledger duties, manages the nightly bank deposit, handles investment activity, and has the ability to collect cash.</p> <p>Grantee Response - During the year, the individual responsible for preparing bank reconciliations resigned. As a result, the finance director had to prepare the bank reconciliations since no other Village staff had the ability or capacity to prepare them. Management has agreed to segregate the reconciliation and general ledger duties from the cash collection and deposit responsibilities going forward.</p>

Section III - Federal Program Audit Findings

None



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September 20, 2006

Members of the Village Council
Village of Beverly Hills
18500 West Thirteen Mile Road
Beverly Hills, MI 48025

Dear Council Members:

We recently completed our audit of the basic financial statements of the Village of Beverly Hills for the year ended June 30, 2006. As a result of our audit, we have the following comments and recommendations for your review and consideration.

State Shared Revenue

Municipalities in Michigan have and will continue to feel the effects of the slowdown in the State's economy. State-shared revenue totaled \$851,476 for the State's 2006 fiscal year and accounted for 13 percent of the City's total General Fund revenue (as recently as the year ended 2000 the City received \$1,088,436). Because of slower than anticipated growth in the State's sales tax collections (the sole source of revenue-sharing payments to local units of government) and the State's budget problems which have resulted in additional appropriation reductions to the revenue-sharing line item in the State's budget, revenue-sharing payments for the last several years have been lower than anticipated.

Although sales tax revenue would support an increase to state-shared revenue payments, the State's budget situation remains troublesome at best. It is generally acknowledged that the State's budget woes will continue for several more years. As a result, we continue to urge the Village to be conservative in its estimation of state-shared revenue as this line item in the State's budget remains vulnerable.

On August 9, 2006, the Michigan Legislature approved a voters' legislative "initiative" to repeal the Michigan Single Business Tax ("SBT") for tax years beginning after December 31, 2007, two years earlier than it was originally slated to end. In addition to the repeal, the law requires the Michigan Department of Treasury to prorate the SBT to result in the equivalent of zero tax on business activity occurring after December 31, 2007. Previously, the SBT was scheduled to be repealed for tax years beginning after December 31, 2009.

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Currently, there is no plan for replacement of this \$1.9 billion in lost revenue to the State. If no replacement revenue is identified, statutory revenue sharing may become a target to fill the hole in the State's budget. The Legislature has created a "Joint Committee on Economic Growth" charged with submitting to the Legislature by December 1 recommendations on a replacement tax for the Single Business Tax. Also, ending and replacing the State's personal property tax, a significant revenue source to many local governments, has been added to the Committee's agenda.

If the State were to eliminate the statutory portion of revenue sharing (as the constitutional portion cannot be modified without a change to the State's constitution), the Village has approximately \$113,000 at risk in its General Fund budget based on the State's budget for the 2006-2007 year. We will continue to update the Village as developments occur. The statutory formula expires in 2007 and requires action by the legislature.

Act 51

Annual transfer – Current legislation has modified Act 51 to allow local governments to transfer monies from their Major Street Fund to their Local Street Fund at a level of 50 percent of annual major street funding received. In addition, greater than 50 percent can be transferred. However, the amended law requires that certain conditions be met to allow for a transfer in excess of 50 percent including the adoption of an asset management process for the Major and Local Street systems as well as a detailed resolution passed by the Village. It is important to note that major street funds transferred for use on local streets can not be used for construction but may be used for preservation, and these provisions sunset December 31, 2008. Without an extension of this provision, a transfer from the Major Street Fund to the Local Street Fund can only be done to the extent that local revenues exist in the Major Street Fund. Current legislation also includes a pilot program that would allow for the combination of the Major Street Fund and the Local Street Fund if certain conditions are met.

The Village currently allocates a portion of its operating levy to the Local Streets Fund for infrastructure projects. Given the restrictions on property tax revenue growth due to Proposal A, the Village may consider an alternative method of funding the Local Streets fund's projects. As discussed above, the Act 51 rules allow a transfer of Act 51 monies from the Major Streets Fund to the Local Streets Fund each year. Since the Major Streets Fund has the ability to do so, this option would allow the Village to maximize their tax levy in the General Fund while still allocating enough resources to the Local Streets Fund.

In addition, as part of the Governor's fiscal year 2006/2007 budget proposal, a road funding program has been introduced which would provide approximately \$400 million to be used by local governments as Federal match monies on local road projects. The program requires legislation before it becomes effective.

Nonmotorized improvements - Given the Village's current involvement with nonmotorized improvements and roadside parks, we would like to remind the Village of the following set of facts related to opportunities to apply Act 51 monies toward these types of projects. There are no annual limits on the amount of Act 51 funds that can be applied to nonmotorized improvements as defined under Act 51. However, the Village is required to have cumulative expenditures for nonmotorized improvements exceeding 10 percent of Act 51 annual receipts over the past 10 years. Related to spending on roadside parks, a limitation of 5 percent of annual receipts is required. In addition, it is not possible to apply costs retroactively from prior periods.

Property Taxes

As you recall, Proposal A limits the growth in taxable value to the lesser of inflation or 5 percent. The inflation factor for this calculation is published by the State Tax Commission and is as follows:

2006	3.3%	2001	3.2%
2005	2.3%	2000	1.9%
2004	2.3%	1999	1.6%
2003	1.5%	1998	2.7%
2002	3.2%	1997	2.8%

As indicated above, growth in existing property is significantly limited due to Proposal A to an average of 2.48 percent annually over the past 10 years. This factor should be considered when the Village is involved in long-term financial planning.

The Headlee Amendment to the Michigan Constitution limits the amount of taxes that can be levied by the Village. In general terms, if growth in the Village's existing property tax base exceeds inflation for a particular year, the Headlee Amendment requires the Village to "roll back" its property tax rate to inflation. Prior to the passage of Proposal A in 1994, during years when the growth on the Village's existing property tax base was less than inflation, the Headlee Amendment allowed the Village to "roll up" its property tax rate and recover from years when the property tax rate was "rolled back." However, subsequent to the passage of Proposal A, the Village is no longer allowed to "roll up" its property tax rate in years when growth on its existing tax base is less than inflation. As a result, despite general operating charter mills of 11, currently the Headlee limited mills are 9.4769 (a reduction of almost 14 percent).

Internal Control Considerations

During the current year a staff position became vacant within the finance department. In an effort to make sure the related responsibilities were addressed the Finance Director assumed the responsibilities of the vacant role. While this short-term fix allowed the department to continue to meet its responsibilities, it has diminished the internal controls of the department as noted by the following two items.

Cash system procedures – Currently, the Finance Director is required to prepare bank reconciliations, perform general ledger duties, and manage the nightly bank deposit. Furthermore, he has the ability to collect cash at the counter in the event that all other Village staff are unavailable to do so. In an effort to increase the segregation of duties we recommend restructuring the duties so that he is not required to be responsible for collecting cash at the counter or perform the nightly bank deposit.

Wire transfers and investment activity – During our audit, it was noted that the Finance Director is required to manage all wire transfer and investment activity. In addition, he is also responsible for the cash

system procedures identified above. In an effort to institute an increased level of segregation of duties we recommend that the Village consider instituting the following controls:

- An arrangement with its financial institutions whereby transfers are restricted to a maximum amount
- Implementation of a "call-back" feature
- A formal listing should be maintained on file with the financial institutions related to allowable payees
- Furthermore, we recommend that the Village designate an individual independent from the cash system procedures to review investment statements on a regular basis for reasonableness.

Reportable Condition

Reportable conditions are significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect the Village's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements

In planning and performing our audit of the financial statements of the Village of Beverly Hills for the year ended June 30, 2006, we considered the Village's internal controls in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control; however, we would consider the items described above under the cash system procedures and wire transfers and investment activity sections of this letter to be a reportable condition under standards established by the American Institute of Certified Public Accountants.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components do not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of internal control would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, none of the reportable conditions described above are believed to be material weaknesses.

We would like to thank Robert Wiszowaty, as well as all of the Village of Beverly Hills' personnel for their assistance during the audit. We appreciate the opportunity to serve as your auditors. If there are any questions about your financial report or the above comments and recommendations, we would be happy to discuss them at your convenience.

Very truly yours,

PLANTE & MORAN, PLLC

A handwritten signature in black ink that reads "Joseph C. Heffernan". The script is cursive and fluid.

Joseph C. Heffernan, CPA

A handwritten signature in black ink that reads "Blake Roe". The script is bold and cursive.

Blake M. Roe, CPA